

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN APPLICATION OF RALPOP)	
UTILITIES, INC. FOR AN ADJUST-)	CASE NO. 9139
MENT OF RATES)	

O R D E R

On September 14, 1984, Ralpop Utilities, Inc., ("Ralpop") filed its application with the Commission requesting to increase its rates for sewage treatment service pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). Ralpop stated that the proposed rates would produce additional revenues of \$16,620, an increase of 88.5 percent over actual test year revenues. However, based on the normalization adjustment contained herein, the proposed rates will produce an increase of \$15,813 annually. Based on the determination herein, Ralpop has been granted the requested rates and the full amount of the adjusted revenue increase which results in an 80.8 percent increase.

In accordance with the provisions of the ARF regulations, no hearing was held in this matter. The Commission's decision is based on information contained in Ralpop's application and annual reports, along with its response to the Commission's written request for information dated October 25, 1984.

COMMENTARY

Ralpop is a privately-owned corporation providing sewage treatment services to 29 commercial and industrial customers in the Poplar Park Industrial Park in Jefferson County, Kentucky.

TEST PERIOD

The Commission has adopted calendar year 1983 as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

REVENUES AND EXPENSES

Ralpop proposed several adjustments to its test period revenues and expenses. The Commission finds the proposed adjustments to be proper and acceptable for rate-making purposes with the following exceptions:

Operating Revenue

Ralpop's billing analysis filed with its application produces operating revenues in the amount of \$16,955, while the annual report for the test year shows operating revenues in the amount of \$18,769. In response to Item No. 13 of the request for information dated October 25, 1984, Ralpop indicated that this difference in revenue is the result of its inability to obtain complete 1983 calendar year consumption, which resulted in Ralpop prorating 4 months of 1983. Therefore, the Commission has increased the income produced by the billing analysis by \$1,814 in order to reflect actual test year revenue.

The Commission has further increased operating revenue by \$807 to reflect the amount of revenue that should be produced by

the current rate based on the number of customers at the end of the test year.

Operating Expenses

Ralpop proposed adjustments totaling \$1,068 for utilities expenses, operating fees, supplies expense, increases in chemical analysis and repairs expense based on a projected increase in water consumption by its customers. Ralpop calculated its test year expense for these amounts on a "cost-per-1000-gallons" basis and then applied those costs to the projected increases in water consumption. The Commission is of the opinion that these expenses cannot be directly traced to the volume of water consumed by Ralpop's customers. Therefore, the proposed adjustments do not meet the Commission's standard of being known and measurable and are hereby denied for rate-making purposes.

Electric Expense

During the test year Ralpop reported \$15,207 in electric expense. An analysis of the bills submitted by Ralpop shows this amount included the cost of 13 months' usage of electricity. The Commission has adjusted Ralpop's electric expense to reflect 12 months' usage at the rates currently charged by its electric supplier, Louisville Gas and Electric Company. The result of such adjustment is to reduce the reported electric expense by \$57 to an adjusted amount of \$15,150.

Fixed Charges

Of Ralpop's \$66,079 in total test year expenses, \$39,682 represents fixed charges for depreciation, interest and rent expense. With its current customer base Ralpop is only operating

at 20 percent of its plant's capacity. Therefore, in this proceeding Ralpop requested recovery of only 20 percent of its fixed costs. In order to recognize that only 20 percent of these costs are being passed along to Ralpop's ratepayers, the Commission has made the following adjustments:

- a. Reduced rent expense from \$10,894 to \$2,179.
- b. Reduced depreciation from \$19,788 to \$3,958.
- c. Reduced interest expense from \$9,000 to \$1,800.

The total effect of these adjustments is to reduce Ralpop's fixed charges by \$31,745, from \$39,682 to \$7,937. The total of all adjustments to Ralpop's test period operations produces the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 18,769	\$ 807	\$ 19,576
Operating Expenses	57,085	<24,602>	32,483
Operating Income	<u>\$<38,316></u>	<u>\$ 25,409</u>	<u>\$<12,907></u>
Interest Expense	<u>9,000</u>	<u><7,200></u>	<u>1,800</u>
Net Income	<u><u>\$<47,316></u></u>	<u><u>\$ 32,609</u></u>	<u><u>\$<14,707></u></u>

REVENUE REQUIREMENTS

The Commission typically uses the operating ratio method in the determination of revenue requirements for sewer utilities and there has been no evidence submitted in this proceeding to cause the Commission to deviate from this practice. The Commission is of the opinion that an operating ratio of .92 is fair, just and reasonable for Ralpop. Based on the adjusted test period operations, and including a provision for income taxes, the Commission finds Ralpop's revenue requirement to be \$35,389 which would

require an increase of \$15,813. The Commission is of the opinion that the full increase requested by Ralpop will produce gross annual revenue sufficient to pay its out-of-pocket operating costs and an appropriate share of its fixed costs and should, therefore, be approved.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Ralpop and contained in Appendix A is the fair, just and reasonable rate to be charged by Ralpop and will produce annual operating revenues of \$35,389.

IT IS THEREFORE ORDERED that the rate proposed by Ralpop and contained in Appendix A be and it hereby is approved for service rendered by Ralpop on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Ralpop shall file its revised tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 31st day of January, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9139 DATED 1/31/85

The following rate is prescribed for the customers in the area served by Ralpop Utilities, Inc., located in Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>CUSTOMER CLASS</u>	<u>MONTHLY RATE</u>
Industrial and Commercial	\$3.52 per 1,000 gallons